



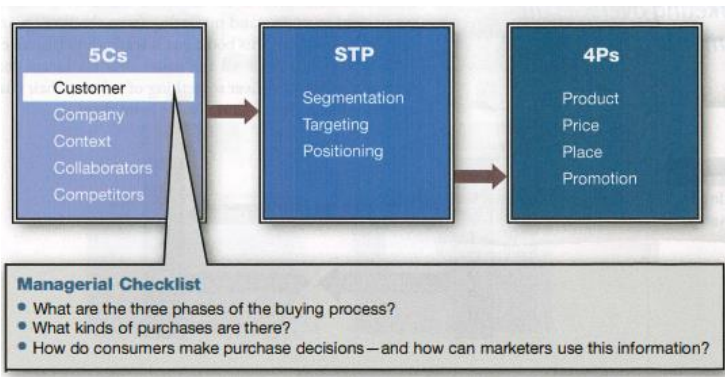
## Mktg77 Prelims Reviewer

Accountancy (University of Pangasinan)



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## MKTG 77 CHAPTER 1: OVERVIEW



### DEFINING MARKETING

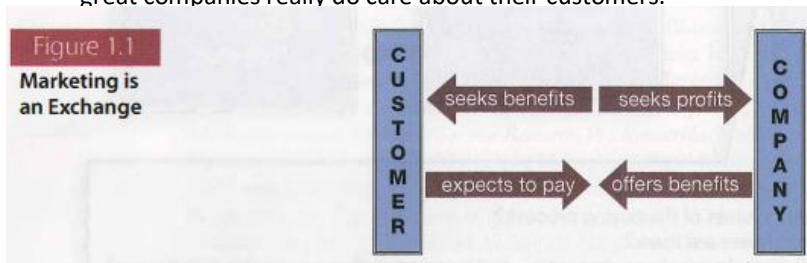
Ask the **average person**, "What is marketing?" and they might say:

- "Marketing is sales and advertising."
- "Marketers make people buy stuff they don't need and can't afford."
- "Marketers are the people who call you while you're trying to eat dinner."

### MARKETING IS AN EXCHANGE RELATIONSHIP

-Marketing is defined as an **exchange between a firm and its customers**. Figure 1.1 shows the customer wants something from the firm, and the firm wants something from the customer.

-**Marketers** try to figure out what customers want and how to provide it profitably. Ideally, this can be a nice, symbiotic relationship. **Customers** don't mind paying for their purchases—and sometimes they pay a lot—if they really want what they're about to buy. **Companies** like taking in profits, of course, but great companies really do care about their customers.



### Marketing is Everywhere

- **Marketing managers** sell simple, tangible goods such as soap or shampoo, as well as high-end luxury goods such as Chanel handbags. Other marketing managers work in **services**, such as haircuts, airlines, hotels, or department stores. Marketers oversee experiences like theme parks or events like theater and concerts.

-Marketers help entertainers, athletes, politicians, and other celebrities with their images in their respective "marketplaces" (fans, agents, intelligentsia, opinion).

-**Tourist bureaus have marketers** who advertise the selling points of their city's or country's unique features. Information providers use marketing because they want customers to think they're the best (and thereby maximize their ad revenue).

-Marketers at **nonprofits and government agencies** work on "causes" (e.g., encouraging organ donation or drinking responsibly). Industries market themselves (think of the beef or milk ads).

-Naturally, companies **use marketing for their brands** and themselves. And you can market yourself, e.g., to a job interviewer or potential amour. These goals may look different, but marketing can be used beneficially in all these situations.

### WHY IS MARKETING MANAGEMENT IMPORTANT?

-**Marketers have evolved** beyond being merely product or production focused, where the company mind-set is, "**Let's build a better mouse trap.**" We know that approach doesn't work. There's no point in just cranking out better gadgets unless the customers want them.

-However, there are still **pockets of marketing naivete in a number of industries**. For example, some museums believe they don't need marketing. Perhaps the general public is indeed relatively unsophisticated culturally, but marketing can be used to educate the public.

-We're also **more advanced than the old sales-oriented days** when the action in the marketplace was, "**Let's make a deal.**" This mentality still exists in places like drug companies, which push their sales forces to impress physicians.

-But usually **sales dynamics** occur where the product is perceived to be a commodity. In contrast, marketers should be good at communicating product distinctions. As much as direct-to-consumer pharma ads annoy physicians, they attest to the power of marketing. The ads result in patients asking their doctors for particular brand names.

-These days **we live in a truly customer-oriented and customer-empowered marketing world**. Marketing is even said to be evidence of evolved markets—that an industry or country has moved beyond production and sales and seeks true relationships with its customers.

### CUSTOMERS' PERSPECTIVE

Marketing can seem intuitive because we're all consumers. But **we're not always the target customer** for the brands we're building. As a Brand Manager or CEO, don't forget to put yourself in the shoes of your customers every once in a while, to see your brand from their perspective. When you do, you'll

understand their wants and needs better. That alone will give you an advantage over your competitors.

### Marketing and Customer Satisfaction is Everyone's Responsibility

Many management gurus believe that **marketing has succeeded** so well that it isn't just a "function" in an organization anymore. **Marketing is more of a philosophy**—a way to think about business. The marketing orientation should permeate the organization.

- **Accounting and finance** need to acknowledge the importance of marketing. Why? Because their CEOs do. Thinking about customers is unimportant only if you're a monopoly, and even then, you won't be one for long.

- **Salespeople** understand marketing immediately. They're the front line, interfacing with the customer. They want to push their firm's stuff, but they're thrilled when their company actually makes stuff that customers want. Then their jobs are so much easier.

- **R&D people** tend to understand the marketing spirit, too. They're hired because they're technically sophisticated, but they get jazzed when their inventions become popular. It doesn't take much marketing research to test concepts or prototypes and to veer an R&D path one way or another.

—One of the factors stressing marketers these days is the **pressure to show results**.

—The Chief Financial Officer (**CFO**) who wants to see that a recent coupon promotion lifted sales can get reasonably good estimates from the Chief Marketing Officer (**CMO**) about effectiveness, e.g., the percentage sales increase attributable to the coupon introduction. The Chief Operating Officer (**COO**) can also get good estimates of whether a recent direct mail campaign to target customers has been effective in encouraging frequent buyers to go directly to the Web for purchasing.

### How does one assess the value of a good segmentation study?

—If segments are **poorly defined**, any subsequent marketing efforts would be completely off, so a good segmentation scheme is invaluable.

—**Advertising** is also a little tricky. Non-marketers have the misconception that advertising is supposed to bump up sales. It can, and that bump is easily measured. But really great advertising isn't intended for a short-term effect on sales. **Great advertising** is intended to enhance brand image, a goal that is relatively longer term and thus more difficult to measure.

—In addition **to quantifying the effectiveness** of marketing programs, marketers are motivated to translate their efforts

into dollars for another reason: to have a **"seat at the table."** Marketers want to make sure that the CMO carries as much weight in the firm as the CEO or CFO or COO. They all speak finance, so the marketer is frequently motivated to translate progress into financial terms. Fortunately, technology and data are increasingly enabling more opportunities for the marketer to make such assessments. For example, **a good customer relationship management (CRM) program** allows marketers to run a field study to assess the impact of a new promotion, and tracking Web data allows marketers to determine the product combinations that are most attractive to customers.

### THE "MARKETING FRAMEWORK": SCS, STP, AND THE 4PS

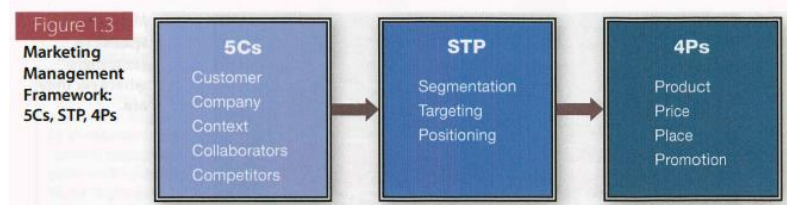


Figure 1.3 provides the marketing management framework. Marketing is captured by the **5Cs, STP, and the 4Ps**.

- **5Cs**

The **5Cs** force a businessperson to systematically frame the general analysis of the entire business situation. Figure 1.1 shows that the customer and company are the central players in the marketing exchange. The context includes the **backdrop of macroenvironmental factors**: How is our economy and that of our suppliers doing? What legal constraints do we face, and are these changing? What cultural differences do our global segments manifest? The collaborators and competitors are the companies and people we work with vs. those we compete against (though drawing the line is sometimes difficult in today's interconnected world).

- **STP**

**STP stands for segmentation, targeting, and positioning.** A company or a brand may want to be all things to all people, but most are not. It's **best to identify groups, or segments, of customers** who share similar needs and wants. Once we understand the different segments' preferences, we're in a position to identify the segment we should target with our marketing efforts. We then begin to develop a relationship with that target segment by positioning our product to them in the marketplace, via the 4Ps.

- **4Ps**

The **4 Ps are product, price, promotion, and place.** A marketer is responsible for creating a product (goods or services) that customers need or want, for setting the appropriate price for the product, for promoting the product via advertising and sales promotions to help customers understand the product's

benefits and value, and finally for making the product available for purchase in easily accessed places.

-Marketing management oversees the 5Cs, STP, and 4Ps with the goal of **enhancing the marketing exchange** (of goods, services, payment, ideas and information, etc.) between a customer base and a firm.

-The **best marketers** put themselves in the place of their customers: What are they like? What do they want? How can we play a role in their lives?

-The P of positioning in STP is done via all 4Ps. Thus, the 5Cs, STP, and 4Ps **operate interdependently**.

### Situation Analysis

To elaborate on marketing strategy and develop a particular marketing plan, start with a situation analysis, and sketch answers to the following questions:

- **Customers:** Who are they? What are they like? Do we want to draw different customers?
- **Company:** What are our strengths and weaknesses? What customer benefits can we provide?
- **Context:** What is happening in our industry that might reshape our future business?
- **Collaborators:** Can we address our customers' needs while strengthening our business-to-business (B2B) partnerships?
- **Competitors:** Who are the competitors we must consider? What are their likely actions and reactions?

### Background Analysis

With that background analysis, proceed to strategic marketing planning via STP:

- **Segmentation:** Customers aren't all the same; find out their various preferences, needs, and resources.
- **Targeting:** Pursue the group of customers that makes the most sense for our company.
- **Positioning:** Communicate our product's benefits clearly to the intended target customers.

### Marketing Tactics

Similarly, marketing tactics to execute the intended positioning derive from a customer focus:

- **Product:** Will customers want what our company is prepared to produce?
- **Price:** Will customers pay what we'd like to charge? • **Place:** Where and how will customers purchase our market offering?

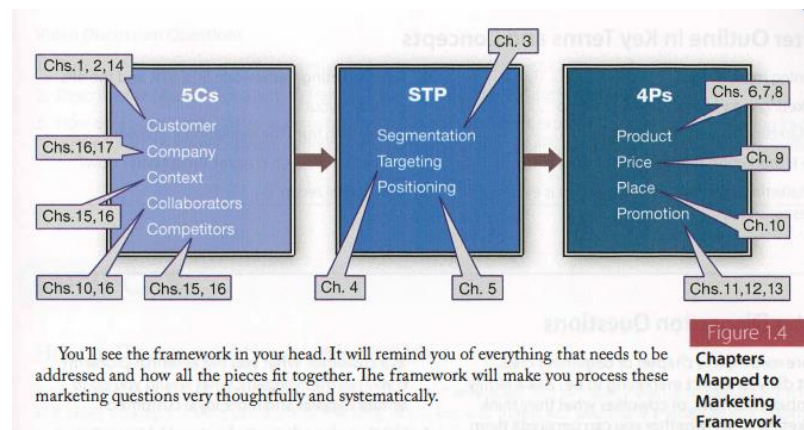
- **Promotion:** What can we tell our customers or do for them to entice them to purchase?

### Book Layout

-**Marketing** is involved in designing products that customers will enjoy, pricing them appropriately, making them available for purchase at easy points of access in the marketplace, and advertising the products' benefits to customers.

-**Great marketing** is based on sound, logical-economic and psychological-laws of human and organizational behavior. You will learn the scientific and rigorous way to think about marketing issues, so that, in the future, when your situation looks nothing like the ones you've talked about in school, you'll know how to proceed in finding your optimal solution.

### Learning from the Marketing Framework





## MKTG 77 CHAPTER 2: CONSUMER BEHAVIOR

### THREE PHASES OF THE PURCHASE PROCESS

-Customers go through **predictable stages** in making a purchase.

#### • Pre-Purchase

-In the **pre-purchase phase**, the customer identifies that something is lacking-there is a need or a desire to be satisfied. Critics sometimes say that marketers create desires in people that they didn't already have. There is some truth in that (e.g., "Is your breath fresh?" "Do you own the coolest running shoes?"), but even without marketers, people really do need and want all kinds of things. Then the hunt begins. Buyers search for information about products and brands that may be suitable.

-For example, a newly minted MBA student has multiple wants: new clothes, a car, a condo and furnishings, a list of restaurants in a new city to take clients or visiting friends, a new dentist, a drycleaner, etc. Such consumers might search for alternative solutions by going online or asking friends.

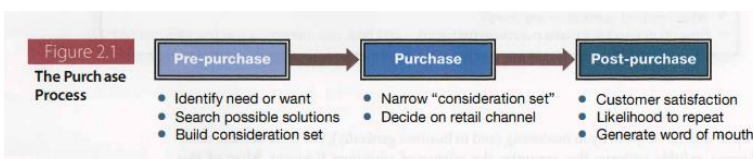
#### • Purchase Phase

-During the **purchase phase** itself, the consumer is creating a consideration set that includes all the brands that are **deemed potential candidates for purchase** and that excludes the brands that have been rejected.

-The MBA student may limit the car search to include only hybrids. The condos considered would be only those within a certain price range. The restaurants selected might be only those with menus that can be previewed online. **Analogous considerations factor into the executive's jet quandary**: What attributes are important? What attributes must I have or not have? What attributes don't I care about and therefore will not pay high prices for?

#### • Post-Purchase

The **final stage** is the **customer evaluation post-purchase**. Buyers **assess their purchase** and the purchase process, posing such questions as: Am I satisfied as a customer? Will I buy this brand again? Will I tell my friends what a great brand I've found?



## B2B Buying Center Roles

In B2B, big, expensive, purchases can be complicated because it's not just one person making the decision. Each purchase involves a half dozen or so roles in a buying center:

- **The Initiator**: An administrative assistant who notices that one of the printers in the office is frequently breaking down.
- **The User**: Every staff member who tries to use that printer.
- **The Influencer**: The IT guy who says, "Well, Brand X is cheaper, but Brand Y is cooler."
- **The Buyer**: The head administrative person whose responsibilities are to facilitate supplies but also to answer to ...
- **The Gatekeeper**: A conservative accountant type whose job it is to tighten purse strings.

A decision to buy a new printer is complicated by the fact that each of these roles seeks slightly different attributes. Some care only about price, others want great features, and still others may appreciate wiggle room in negotiating delivery dates or follow-up customer service.

-The buying process is **consistent whether the buyer is a consumer or a business**. Consumer buying is easy to relate to. It involves people buying something for themselves or their households, and we are those people.

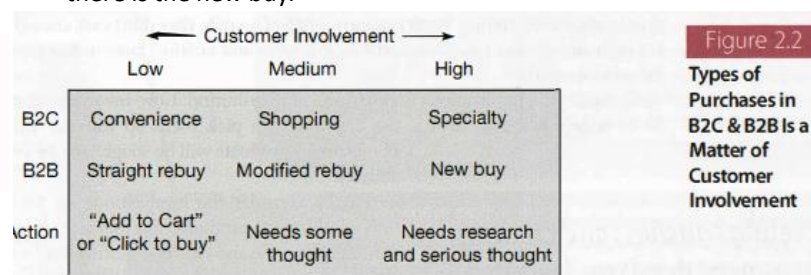
-A **business customer** is an agent buying something on behalf of an organization. The agent can be an administrative assistant deciding to use UPS or FedEx, or the agent can be a group of people, representing different aspects of the organization (accounting, operations, etc.), comprising a collective buying center. All purchases, business-to-consumer (B2C) or business-to-business (B2B), go through the three stages.

### DIFFERENT KINDS OF PURCHASES

-Marketers distinguish between types of purchases. For **consumers**, a **convenience item** is a fairly mindless purchase of "staples" (standard, frequently-consumed goods, such as bread or gas) or an **impulse purchase** (such as candy or magazines that are available near grocery checkouts).

-There are also **shopping purchases**, which require some **thought or planning**, as when using OpenTable to find a restaurant before heading out of town.

-For **B2B customers**, the terms are different from consumer buying, but the ideas are analogous. A purchase can be a **straight rebuy**, such as when the office copier needs toner and the office manager buys the usual brand. Another purchase may be a modified rebuy, such as when the copier lease comes up and there is a desire to consider a different vendor. Last, there is the new buy.



- As Figure 2.2 indicates, what differentiates these purchases is not the product itself. The **distinction** is more in the **minds**

of the customers and in their involvement with the brand and product category.

-For example, the purchase of the same product -an energy drink can be **convenience** when shoppers mindlessly put their usual brand in their grocery cart; it can be a **shopping purchase** when customers see a new offering that they consider trying; and it can be a **specialty purchase** when customers see an expensive brand that promises antioxidants, which they choose to read up on before making a purchase.

## Types of B2B Customers

B2B customers are often classified according to what they sell:

- Installations (e.g., equipment for new factories)
- Accessories (e.g., computers to help run the office)
- Raw materials (e.g., lumber, plastics)
- Components (processed items that are components in a later finished product)
- Business services (e.g., insurance, legal, consulting)

Ultimately, the most important classification is how much the buying business cares about the purchase. Then we'll know whether they care primarily about quality or price.

-For **lower-involvement purchases**, we can expect customers to be somewhat more price sensitive. They'll **pay more** when they buy things they really like or want (e.g., a cool laptop) or that they expect to be of high quality (e.g., a great restaurant) or that is important to them (e.g., health care for their parents).

-Consider the implications for **loyalty programs**. The marketer can create such programs regardless of the level of customer engagement, but they'd take different forms, e.g., **price discounts for low-involvement purchases** vs. **brand communities and events for high-involvement products and brands**. Customer satisfaction can be fine for low-involvement purchases, but customers won't generate word of mouth; they don't care enough. In contrast, for high-involvement purchases, strong followers and satisfied customers can be zealots and brand ambassadors.

- **Low-involvement** products need to be widely available so that the customer can pick them up without thinking. **High involvement** products will be sought out by more customer activity.

## THE MARKETING SCIENCE OF CUSTOMER BEHAVIOR

### A. Sensation and Perception

-When marketers formulate positioning statements or **produce perceptual maps**, they presuppose a complicated system through which consumers sense and perceive their environment. An enormous wave of sensory stimulation washes over and through us every day.

-Let's consider how marketers can use information through each of the senses. **Visual stimuli** are obviously important to

marketers. Ads show products, product design, print information, imagery visualization to facilitate desirable lifestyles, etc.

-Even **simple colors** imbue brand associations and can be integral to some brand identities. Marketers frequently use color to convey information.

- **Hearing** is also important to marketers. Research shows that when retailers play background music that is energetic, with a quick tempo, customers spend more.

- A third sense is **smell**. Scent can also be alluded to, drawing on the consumer's memory, as when Folger's coffee commercials depict a person being awakened by the aroma of brewing coffee.

- A fourth sense is **taste**. A classic marketing exercise is to run blind taste tests in order to declare that one's own product is superior to the market leader, or that a "me-too" brand is liked as well as a market leader.

- A fifth sense is **touch**. The predominant means of conveying brand imagery through touch is when marketers create well designed products, compared to products intended to be positioned for value

- **Subliminal advertising**. The idea is that an ad can be shown very quickly, on TV, online, or in the movies, so that it doesn't quite meet the threshold of liminal recognition and consciousness, and therefore it is said to be subliminal. Yet somehow the vision is captured subconsciously, and marketers hope the message will compel action.

### B. Learning, Memory, and Emotions

-All those sensory and perceptual impressions can become **brand associations**. To say that consumers have brand associations means that, in their memory, they have **stored certain attributes attached to the brand**. When the brand is mentioned, those associations are brought to mind.

-**Learning** is the process by which associations get past the sensory and perception stages into short-term memory and then, with repetition and elaboration, into long-term memory. There are several theories about learning, but two are so fundamental and pervasive that every marketer should know them.

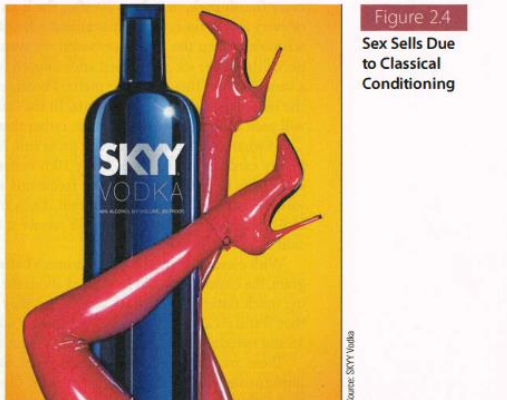
#### • Classical conditioning

-The **first way that people learn** is through **classical conditioning**. This type of learning is so well known and integrated into our culture that most people have heard of the demonstrations by Ivan Pavlov of his salivating dogs. The learning goes through stages:

- **Stage 1**: A food bowl placed in front of a dog naturally elicits its drool.
- **Stage 2**: A bell rung in front of the dog initially elicits

no response. • **Stage 3:** A bell rung while a food bowl is simultaneously placed in front of the dog elicits drool. • **Stage 4:** With time, bell rung in front of the dog elicits drool. The dog has come to learn that the bell is associated with food.

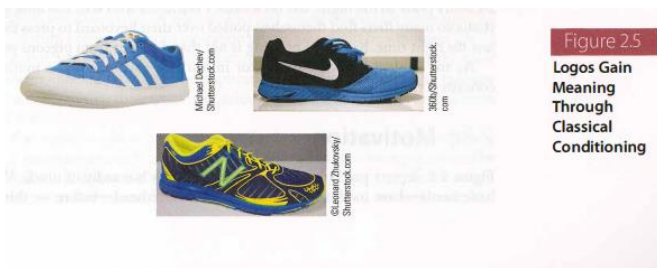
-Perhaps you're thinking, "But that's just a dog." Indeed. However, consider Figure 2.4. It's common to hear that "sex sells," but why or how does it work? The process is this:



• **Stage 1:** A babe (male or female) elicits drool. • **Stage 2:** Some brand or product initially elicits no response. • **Stage 3:** That brand or product in a picture with aforementioned babe elicits drool. • **Stage 4:** With time, the brand itself elicits drool.

-Consider more neutral stimuli, such as the logos in Figure 2.5. At their introduction, these abstract symbols convey no information and function much like the bell in Pavlov's lab. With time, while logos might not elicit drool, consumers come to learn and associate these fairly similar looking symbols with their unique brands.

- It's also worth noting, in this ever-changing world, that sometimes companies want to shed negative associations, and they change their names and logos to do so.



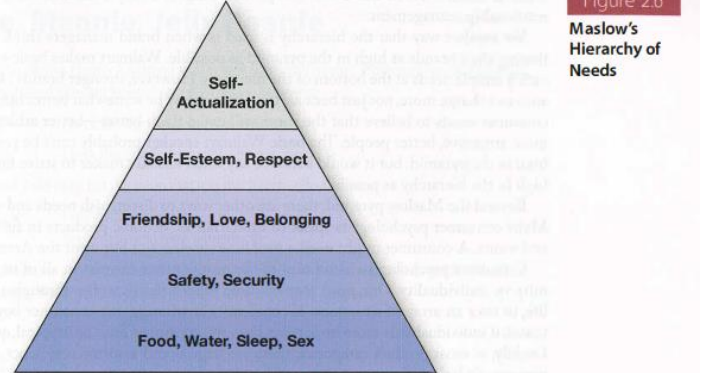
### • Operant conditioning.

-The second way that people learn is through operant conditioning. This type of learning is also so well known that most people have heard of Skinner boxes. B. F. Skinner studied pigeons pecking at a target, or rats pressing a bar, to receive food pellets. The pigeon learns the desired behavior by being rewarded. The behavior is said to be positively reinforced.

- consider loyalty programs. Marketers reward consumers who carry their loyalty cards by giving them every 10th coffee free,

for example. If marketers want their consumers to purchase even more frequently and ring up more sales, they would design a variable ratio reinforcement program. Each coffee card could have a scratch-off number indicating that the customer would receive a free coffee after, say, seven coffees. The next card might say five or 15, etc.

### Motivation



-Figure 2.6 depicts psychologist Abraham Maslow's hierarchy of needs. We have to meet basic needs-have food on the table and a roof overhead-before we think about buying nice clothes. Once we have met our basic needs, we are driven by more abstract motivations, such as love and esteem, qualities that begin to define humanity. At the peak of this pyramid is the phrase, self-actualization, an achievement of our ideal self, with no needs, no excessive wants, no jealousies, etc.

-One way that marketers use this hierarchy is by identifying their product with a certain level of needs. They use imagery to appeal to those motivations.

### Other ways to distinguish needs and motivations

- Many consumer psychologists speak of utilitarian vs. hedonic products in fulfilling needs and wants. A consumer might need a new interviewing suit but want the Armani threads.

- **Conformity vs. individuality.** One need may be more salient than another throughout a person's life, or over an array of situations. If conformity is winning, the consumer buys a popular brand; if individuality is more important, then the consumer finds an atypical, quirky brand.

-**Risk seeking or risk averse.** In some product categories, consumers may be very knowledgeable, opinion leaders, and ready to try the newest that the market has to offer (the latest music, fashion, etc.). In other product categories, those same persons may be more risk averse for a variety of reasons, including caring less about the category or not having the expertise to make choices confidently. For these purchases, the consumers would be more conservative, trying to prevent a bad purchase, rather than striving for a good purchase.



## Attitudes and Decision Making

- Marketers want to understand **how consumers think and what motivates them** so that they might persuade the consumers to have positive regard for a particular brand and see it as superior to all others, at least for their needs.

- **Attitudes and decision making** affect the extent to which consumers will buy a brand, repeatedly purchase it, become loyal, and recommend it to others. So if we seek to enhance attitudes about brands and encourage particular brand choices, let's begin with two questions: What are attitudes? What does the decision-making process look like?

- **Attitudes** are conceptualized as a mix of beliefs and importance weights. **Beliefs** are opinions, such as BMW s are fast, they're nice to look at, they're expensive, etc. **Importance weights** are things like, "I don't care much about whether my car is fast, but I would like it to be attractive" or "I care about the cost." People can differ on both their beliefs and importance weights.

- **Importance weights** are like the concept of customer involvement. It is an important truism in marketing, with its natural implications, that, in any purchase category, customers can be classified according to how much they care about the given purchase. For the **things consumers care about**, they spend more time learning about the options and brands, and they're usually willing to pay more for excellence. For the things **consumers care less about**, they spend less time investigating, and it's likely that they won't want to pay much.

- The **job of marketers** is to play with both components of attitudes-beliefs and importance weights. Marketers seek to make the beliefs in an attribute or benefit more positive and to make the attributes on which the brand dominates other brands seem even more important. The **beliefs and importance weights** are modified or strengthened through learning and memory and by appealing to consumer motivations that the brand purportedly satisfies

**Attitudes** contribute to decision making and brand choice. In categories with a lot of choices, consumers usually proceed through **two stages**. In the **first, quick stage**, they decide which brands should be considered in more detail vs. those that don't make the cut to be in the consideration set. The **second stage** is relatively prolonged, during which consumers compare the brands in the set to make a purchase choice.

-The **first stage** is thought to be conducted quickly by non-compensatory mechanisms. "**Non-compensatory**" means that some attributes are very important. If the brand has them, then it may be considered further; otherwise, the brand is precluded. Even if the brand excels at something else, that other excellent attribute does not compensate for the lack of the first, important quality.

## How Do Cultural Differences Affect Consumers' Behavior?

- There are also predictable sociocultural effects. We'll consider two examples: **social class and age**. Some societies have clearer class distinctions than others, but gradations in socioeconomic standing are discernible even in relatively classless societies. People tend to be more comfortable with others in comparable standing.

-**Social class** is a construct that is more complicated than just economic access to resources. **Income** is important, but so is family background.

-**Age cohorts** also produce reliable, predictable shopping patterns. maybe travel, and, soon, health care. All highly predictable.

-**Age groups** are particularly important when they are large in size. The infamous **baby boomer group** is beginning to retire. **Older people are traditionally ignored** by advertisers who like to feature youth, but the deep wallets of baby boomers will soon force companies to pay attention.

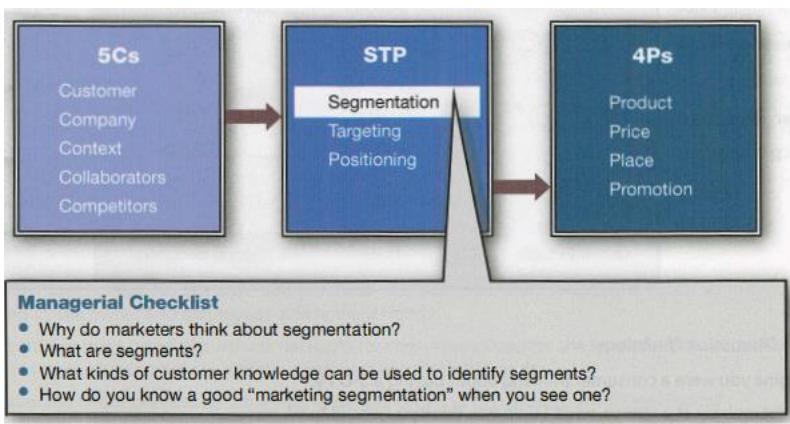
-The **baby boomer generation** was always societal minded, so we might expect to see large-scale altruism and record levels of infusions of resources into nonprofits. In an odd contradiction, this generation was also dubbed "**the me generation**,".

-**Social class and age cohort** are among the various sociocultural factors that impinge on how buyers form impressions and preferences, collect information, form opinions, and make brand choices. **Gender matters**: Men and women are socialized differently, they think about products differently, and they shop differently.

-Finally, **ethnicity and country culture** provide different perspectives, and they can be very interesting (and complicated). We'll see examples throughout the book. Be forewarned: It is difficult to provide generalizations without devolving into stereotypes, so note there are always exceptions. To foreshadow a few observations now:



## MKTG 77 CHAPTER 3: SEGMENTATION



### WHY SEGMENT?

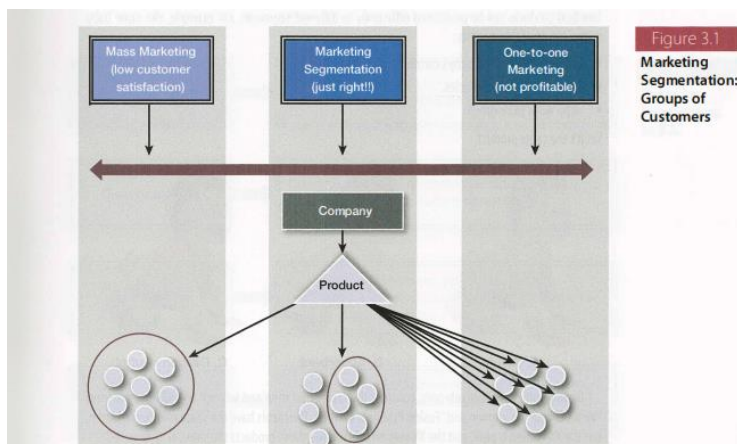
- A company **can't be all things** to all customers. It must choose a segment to serve.

- **Economists** talk about this differently. They call it "imperfect competition"; that is, consumers have unique needs and desires, so collectively a marketplace of consumers is **heterogeneous**. Differences in perceptions and preferences require that different products be provided to satisfy the different segments' needs. When a large, heterogeneous market is segmented into smaller, **homogeneous markets**, a company can focus on meeting the demands of one or two of these groups and create something that is closer to what the customers want.

- In marketing, we **deal with all these customer differences through segmentation**. It's not smart marketing to go after the whole market. Instead of trying to appeal to the entire marketplace, the **smart marketer and smart company** will try to find out what different kinds of customers might like, and decide which groups they can serve best. That strategy begins with market segmentation.

### WHAT ARE MARKET SEGMENTS?

- A **market segment** is a group of customers who share similar inclinations toward a brand. On a continuum from mass marketing to one-to-one marketing, market segmentation is in the middle (see Figure 3.1).



- **Mass marketing** means that all customers are treated the same. This approach might sound attractive because it simplifies the business (i.e., only one product needs to be offered), but it is usually **unrealistic** (because customers differ). Think of a simple commodity product like flour. Different types of flour are available to meet the distinct needs of the flour-using segments.

- At the other extreme, **one-to-one marketing** means that each customer serves as his or her own segment. This approach sounds **appealing from the customer's point of view** because the product would be tailored specially for each person's idiosyncratic desires.

### Potayto, Potahto

Identical products can be positioned differently to different segments. For example, the same baby diaper can appeal to parents:

- thinking about their baby's comfort.
- who want to avoid messes.
- who want to be green.

Yet it's the same product.

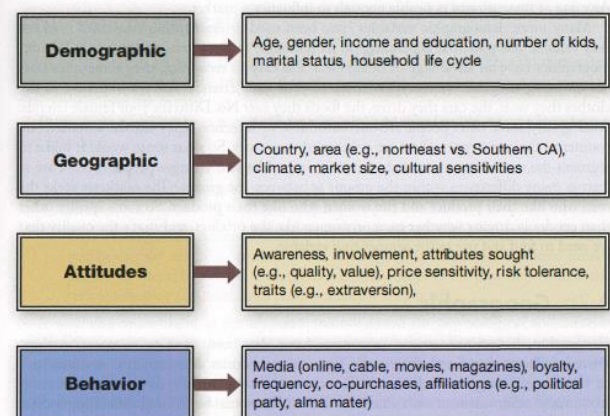


Or, in another product category, consider the razors that men and women use. Gillette produces "Venus Divine" for women and "Fusion ProGlide" for men. The razors have the same number of blades, but the XX version is pink, and the XY version is black. Are these products the same or different?

- As the **contrasts of mass and one-to-one marketing** illustrate, segments become more **heterogeneous** as they increase in size. As a result, they are more difficult to satisfy with the same product (the problem with mass). The goal of **homogeneity** in customers' likes or dislikes is more likely to be achieved as the segment size gets smaller, but if the segment is too small, it might not be profitable (the problem with one-to-one).

- **Niche marketing** is a type of segmentation in which the company strategically focuses, targeting a smaller market, with particular needs that the company can serve well. In Figure 3.1, niches would fall between the one-to-one and segment strategies. Niches might be small segments, but they can be very profitable.

### WHAT INFORMATION SERVES AS BASES FOR SEGMENTATION?



- **Demographic**

-Other easily identified **demographic qualities** of customers include their age, household composition, and stage in the life cycle.

-A note to the budding entrepreneur: Make something that **older people like or need** because boomers are heading in that direction.

- **Geographic**

-Geographic distinctions among customers have also been used to segment markets.

-When **geographic and demographic** information are combined, the segmentation schemes can be even smarter.

- **Psychological**

-It would be ideal to get inside the **heads and hearts of our customers**: What do they want? Do they know? Could they be persuaded to like our brand? Could we change our brand to match their interests better? Psychological traits vary in terms of how much insight they lend to issues of marketing and brands

- It would be more useful to the marketer to understand the **psychological and lifestyle choices** that are relevant to the brands the marketer is pitching. For example, if we know consumers are avid readers, sports nuts, or wine aficionados, we know something more about what they enjoy, their social orientation, and the categories of purchases they'd be easily enticed to make.

-A popular tool **for segmenting using psychographic data is called VALS**. The idea is that the attitudes people hold and their value systems determine their orientations toward certain product categories and brands. For example, so-called strivers are people who are trendy and fashionable in order to impress others, and they are often impulsive buyers. **Marketing managers would study their customers** to understand what they value, and then the managers would be able to communicate more persuasively to those customers.

## VALS

VALS segments people based on three motivations: ideals, achievement, and self-expression ([www.strategicbusinessinsights.com/vals](http://www.strategicbusinessinsights.com/vals)):

- **Ideals** people are guided by knowledge and principles. These consumers buy the newest laptop technology, were first to adopt e-readers, do extensive information searches comparing all the brands before they buy just about anything.
- **Achievement** consumers buy products and services that demonstrate success to others. They drive sexy, expensive cars, and they carry, wear, and drink high-end brands.
- **Self-expression** people desire social or physical activity, variety, and risk. These consumers are the first to go bungee jumping, heli-skiing, or any other extreme sport (and accompanying gear), and they can be brand-fickle.

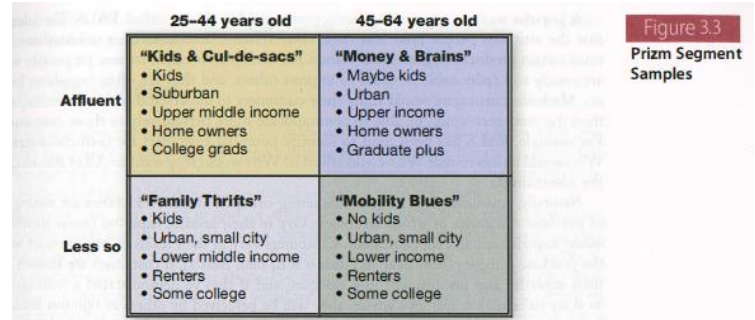


Figure 3.3  
Prizm Segment  
Samples

- **Behavioral**

-Beyond attitudes, psychographics, and lifestyles, marketers would like to **know what customers purchase**, not just what they report they intend to purchase. Grocery scanner data are an example of compiled behaviors. A customer might report to be eating healthy foods, but evidence of their M&M purchases would belie their good intentions.

-**Behaviors** are important in and of themselves (e.g., to help us make predictions regarding future purchasing). In addition, watching what consumers do tells us something about who they are. **Attitudes** are not directly observable, but we can use behaviors to infer attitudes and psychological states. For example, people have preferences for movie genres, and marketers know it. Thus, when we go to an action movie, we'll see previews for other action movies, and when we go to a romantic comedy, the previews are a different batch.

- **B2B**

-While we have been focusing on categories of segmentation data that are particularly useful for consumers, **marketers segmenting their business clients** most frequently use size.

-**Size** can be defined in a number of ways: company sales, market share, number of employees, client's share of provider's business, etc. However, size does not always correlate with future growth potential or with costs associated with high-maintenance clients, who might not be worth retaining regardless of the size of their orders.

-The **primary distinction between segmenting businesses and consumers** is that the data sources tend to be different. There aren't scanner data prevalent for businesses, for example. On the other hand, the number of businesses who comprise one's customer base will be far fewer than the potentially millions of consumers. In addition, there tends to be good corporate knowledge about business customers, in part because such transactions typically rely on a sales force, so there is a knowledgeable front-line interacting with the business customer.



Figure 3.4

Segmenting Consumers & Business

#### Segmenting Consumers

- **Demographic** (e.g., age, gender, income and education, household life cycle, #kids, marital status)
- **Geographic bases** (e.g., country, area (e.g., northeast, vs. Southern CA) climate, market size)
- **Behavior** (e.g., media (magazines, cable, online, movies), loyalty programs, purchase frequency)
- **Attitudes** (e.g., awareness, involvement, price sensitivity, risk tolerance, convenience, prestige)

#### Segmenting Businesses

- **Demographic** (e.g., company size, NAICS industry, account size)
- **Geographic bases** (e.g., country, sales force coverage)
- **Type of firm** (e.g., architects bidding for government (conservative projects, slow to pay, but big), retailer (aesthetics important, manufacturers (efficiency is important), etc.
- **Attitudes** (e.g., price sensitivity, risk tolerance, corporate culture, profitability, high vs. low "maintenance" accounts)

purchase? How price (in)sensitive are they? How stable is the segment? What is its growth potential?

**Fit with Corporate Goals.** An upscale customer segment always seems attractive, but if your marketplace image is that of a store with EDLP (everyday low prices), you'd confuse existing customers if you tried to appeal to a them with new high-end products. Further, new high-end customers might not pay attention to your ads because, to date, your offerings hadn't been relevant to them.

**Actionable.** Lots of segmentation schemes fail because marketers focus on the wrong criteria. Specifically, the statistics and clusters might be crystal clear (e.g., four clear clusters of customers), and even the interpretation and managerial meaning might be clear (e.g., one segment in particular seems to be a great fit). However, the segmentation is useless if the marketer is at a loss as to how to put it into action.

Figure 3.6  
Segments in the Marketplace

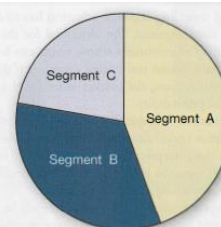


Figure 3.7  
Breadth Strategy: Reaching Multiple Segments

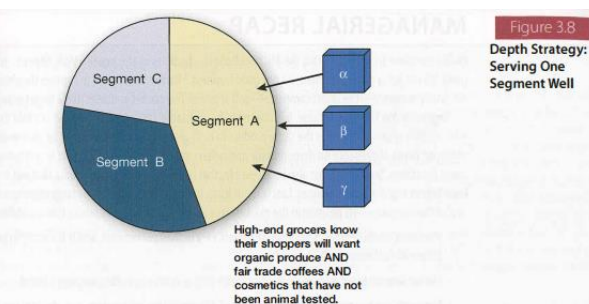
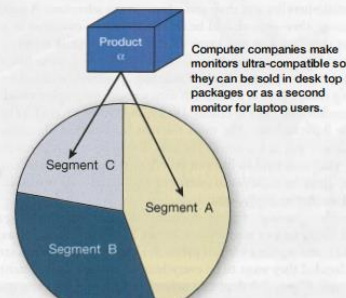


Figure 3.8  
Depth Strategy: Serving One Segment Well

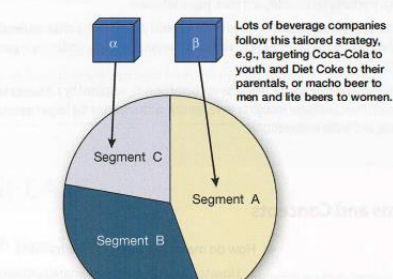


Figure 3.9  
Tailored Strategy: Customizing for Segments

## HOW DO MARKETERS SEGMENT THE MARKET?

- Marketers **identify segments best** when iterating between two approaches-a managerial, top-down ideation and a customer-based, bottom-up customer needs assessment. Marketers begin with some knowledge base about the marketplace: the customers, competitors, and the company's own strengths. Then they can gather information to understand the customer perspective.

-**Knowledge of the marketplace** will clearly also enter into the decision as to which of the segments the company should eventually target. A market segment may look desirable in terms of its size and even future growth potential, but it may already be saturated with offerings by other competitors. There may be richer potential opportunities in other segments. The managerial perspective is also clearly important in terms of assessing the extent to which the servicing of a segment is consistent with corporate goals

- The **iteration between the managerial and customer perspectives** is also important because sometimes a marketing manager might hold beliefs that are not consistent with the customer data.

## How to Evaluate the Segmentation Scheme

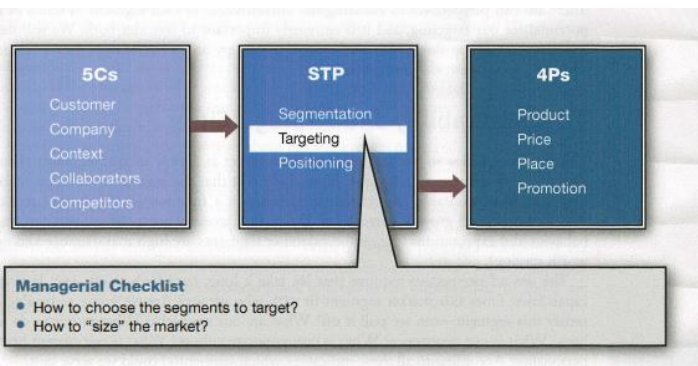
-The **iteration between marketing managers' good sense and the customer-based data** continues when evaluating potential segmentation scenarios. A set of segments may be very clear from a statistical perspective, but they need to be useful from the managerial point of view. So the **question is:** How do you know a good marketing segmentation when you see one?

**Data to Identify Segments.** If one element of an iterative segmentation is a smart marketer, the other element is good customer data.

**Databases to Access Segments.** A related question is whether databases are available that identify potential customers because, after you identify segments, you'll want to access the customers in the target segments.

**Profitability Matters.** Most marketers are curious about the relative sizes of the identified segments, but it's not size that matters so much as how profitable the segment is or is likely to be. Segment size is just numbers of customers, but profitability is smarter information: How frequently do the customers purchase? How large (in terms of money) is their

## MKTG 77 CHAPTER 4: TARGETING



### WHAT IS TARGETING AND WHY DO MARKETERS DO IT?

- **Targeting**: the selection of ideal customer segment(s).

-At this point, the **segmentation scheme** is based on customer variables that are both important and useful.

-We now proceed to **targeting**. The term **"target"** is drawn from a shooting or archery range metaphor, and it says, "We've got our customers in our sights. Now let's get them!"

-The **idea of targeting is selection**. We have analyzed the marketplace, our competitors, and our internal strengths, and we can see that they align better with some segments than with others. So, we will try to serve the segments whose needs match our abilities to deliver, and, in doing so, we hope to make very happy, very loyal customers who will be very profitable for us.

-The **targeting question is** this: Which of those segments do we want to be our customers?

### HOW DO WE CHOOSE A SEGMENT TO TARGET?

-There are **two perspectives in assessing the attractiveness of each segment** in terms of its potential for our targeting, and it is extremely important to consider both. We will iterate between our top-down vision of corporate strategy and a bottom-up, data-informed approach on segment size and profitability.

#### • Profitability and Strategic Fit

-The **first perspective** in assessing segments to target is a view of the segments themselves, and the primary question is: How likely is it that the segment will be profitable (and just how profitable)?

-The **second perspective** requires that we take a long, hard look at our own business capabilities: Does this market segment fit with who we are? Are we going to be able to satisfy this segment-can we pull it off? What are our strengths? What resources do we have? What is our experience? What is our corporate culture? What is our current brand personality?

Figure 4.1

### Strategic Criteria for Targeting Segments

|                     |                      |                            |
|---------------------|----------------------|----------------------------|
|                     | Market is attractive | Market doesn't look so hot |
| Corporate strengths | Go for it!           | Hmm...                     |
| Less capable        | Hmm...               | Avoid                      |

-Figure 4.1 captures the possibilities. In the **upper left**, if a **market segment looks attractive** and if serving that segment fits our corporate abilities, the pronouncement is a simple, "Go for it!" For example, suppose we manufacture athletic clothing. We learn that corporate volleyball teams are growing in popularity, and they need team shirts with their logos. We can do that and likely be successful.

-In the **lower right**, if a segment doesn't look promising and it doesn't fit naturally with us anyway, we let the **"opportunity"** go. For example, e-books are taking off, but with varied platforms. There are still uncertainties ahead. Furthermore, even if our company manufactures PCs, we may not have any particular advantage with e-book technology or distribution. So let's not bother.

-Those two cells in the matrix are the **no-brainer choices** (go/no-go).

-In the **lower left quadrant**, the scenario is that the **market looks sweet**, but we're not particularly capable (e.g., video games are profitable and growing like crazy, but we produce thumb drives). A key question would be whether we can develop sufficient capabilities (e.g., hire teenage boys to do programming and pay them in thumb drives).

- Finally, in the **upper right quadrant**, there is another dilemma scenario: What if the **market doesn't look so great, but we are awesome at creating products** of this sort? The key question in this case is whether we can develop a market. Can we get a segment to understand the benefits of what we provide?

|                      |               |             |
|----------------------|---------------|-------------|
|                      | Favorable     | Unfavorable |
| Internal (corporate) | Strengths     | Weaknesses  |
| External environment | Opportunities | Threats     |

Figure 4.2

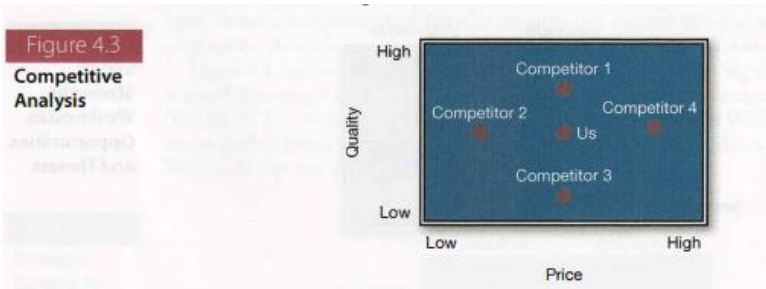
### SWOT: Strengths, Weaknesses, Opportunities, and Threats

-**Opportunities and threats** are usually driven by changes in one of the 5Cs: The economic or environmental context might be changing, a supplier might be morphing into a competitor, a competitor might be offering extended services that are desired by our customers, etc.



## Competitive Comparisons

-A company can try to **assess its corporate strengths** in terms of absolute measures. However, relative comparisons to its competitors may be more relevant. After all, customers make purchase choices based on comparing brands.



-Figure 4.3 is an example of such a comparative analysis, called a **"perceptual map."** This map shows customers' perceptions of our strengths (and weaknesses) vis-a-vis our competitors'.

-**Price** is self-explanatory. The important thing to remember about **quality** is that the defining dimensions vary with the industry: For sporting goods stores, quality might mean huge variety at big box stores, or it could mean depth of category at stores that specialize in, say, camping equipment.

- The market depicted in Figure 4.3 has **good news and bad news**. Our firm isn't seen as the worst provider or the most expensive. But neither are we seen as terrific in either aspect. Indeed, we are seen as relatively average on quality and on price. We dominate competitor 3 on quality and 4 on price. However, we too are dominated by competitor 1 on quality and by 2 on price.

-What does this information gain us, with respect to **targeting?** If a segment we are considering as a target is price sensitive, we have to be especially wary that competitor 2 will react.

**Figure 4.4**  
**Strategic Segment Comparison**

|           | Characteristics: |        |             |     |           |
|-----------|------------------|--------|-------------|-----|-----------|
|           | Size             | Growth | Competitors | Fit | Priority? |
| Segment 1 | \$1 mm           | 5%     | Few         | Yes | ★         |
| Segment 2 | \$2 mm           | 3%     | 1 big       | OK  | ?         |
| Segment 3 | \$1 mm           | 3%     | Few, weak   | OK  | ?         |
| Segment 4 | \$2 mm           | 1%     | Few, weak   | No  | ✗         |

-Figure 4.4 offers a different perspective to consider when selecting a segment to target. It **compares segment profiles along various business parameters**. These simple profiles enable us to assess the likely attractiveness of each segment.

-**Segment 1** is not the largest existing market; **segments 2 and 4 are bigger**. But segment 1 growing the fastest, which makes the market exciting. Of course, growth can be a double-edged sword. Although few competitors exist at the moment, should the market grow big enough, it will attract more.

-**Segment 2** has possibilities. It looks attractive because it is a big market, and it's growing reasonably quickly. Yet two issues

give us pause: The one dominant competitor may be daunting, and it's not our best corporate fit.

-**Segment 3** has its strengths. It has few competitors, and those that exist, we could likely dominate. But it has its weaknesses too: It's not a huge market, it's not growing the fastest, and ultimately it's also not a great fit with our corporate abilities.

-**Segment 4** is one we can pass on with few regrets. It's the smallest and slowest growing. Regardless of competition, we wouldn't know what to do in that market anyway

- **In sum**, segment 1 should be our **priority**. If segment 1 is sufficient in size for our goals, we're good. But if segment 1 is too small, we might consider expanding our targeting of segment 1 to include either or both of segments 2 and 3 down the road. We could roll out and target the segments sequentially, after we've spent the resources to reach and penetrate segment 1 and if we can produce a consistent market offering and communication to additional segments without putting off customers in segment 1.